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Attorneys for Department of Insurance

FILED
MAR 2 2 2006
Department of Insurance
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

IN THE MATTER OF:	
GENERAL FIRE & CASUALTY COMPANY	ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2004
Idaho Certificate of Authority: 2609 NAIC Company Code: 37931	Docket No. 18-2331-06

The Report of Examination of General Fire & Casualty Company as of December 31, 2004 verified by affidavit signed the 17th day of February 2006 by the Idaho Examiner-in-Charge, David W. Emery, CFE, FLMI, a copy of which is attached hereto and incorporated herein as Exhibit A, was completed by examiners from the Idaho Department of Insurance (Department) and the California Department of Insurance

(California Department). Kelvin Ko, CFE, Senior Insurance Examiner for the California Department, signed the Report as the NAIC Western Zone participant.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

WHEREAS, Exhibit A was filed with the Department effective February 17, 2006; and

WHEREAS under Idaho Code § 41-227(4) Exhibit A, along with a Waiver form were transmitted to General Fire & Casualty Company (Company) on March 8, 2006 electronically and by U.S. first-class mail; and

WHEREAS, the Company signed the Waiver form dated March 16, 2006, thereby waiving any right to hearing and its right to seek reconsideration or judicial review of any order adopting Exhibit A; and

WHEREAS the Company further responded to Exhibit A by submitting two letters from Mr. Mike Smith, Treasurer & CFO, dated March 16, 2006. These two responses are attached hereto and incorporated herein as Exhibit B.

ORDER

NOW THEREFORE, after carefully reviewing the report of examination, Exhibit A, and good cause appearing therefor, it is hereby ordered that the above described report, which includes additional findings, conclusions, comments and recommendations supporting this order, is hereby ADOPTED as the final examination report and as an official record of the Department pursuant to Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho this 22 day of March 2006.

Gary L. Smith

Gary L. Smith, Director
Idaho Department of Insurance

CERTIFICATE OF SERVICE

I hereby certify that on this 22nd day of March, 2006, I caused to be served the foregoing document on the following parties in the manner set forth below:

Daniel W. Crandall, President & CEO General Fire & Casualty Company 2710 Sunrise Rim Road, Suite 100 Boise, Idaho 83705		certified mail
		first class mail
		hand delivery
		facsimile
	X	e-mail

Mike Smith, Treasurer & CFO General Fire & Casualty Company 2710 Sunrise Rim Road, Suite 100 Boise, Idaho 83705	X	certified mail
		first class mail
		hand delivery
		facsimile
	X	e-mail

Kimberly J. Bailey, General Counsel General Fire & Casualty Company 2710 Sunrise Rim Road, Suite 100 Boise, Idaho 83705		certified mail
		first class mail
		hand delivery
		facsimile
	X	e-mail

Georgia Hill, Bureau Chief / Chief Examiner Idaho Department of Insurance 700 W. State St., 3rd Floor Boise, Idaho 83720-0043		certified mail
		first class mail
	X	hand delivery
		facsimile
	X	e-mail

The Honorable Alfred W. Gross, Commissioner Chair, NAIC Financial Condition (E) Committee State Corporation Commission, Bureau of Insurance, Commonwealth of Virginia P. O. Box 1157 Richmond, VA 23218		certified mail
	X	first class mail
		hand delivery
		facsimile
		e-mail

The Honorable Gary L. Smith Director, Idaho Department of Insurance NAIC Secretary, Western Zone 700 West State, 3rd Floor Boise, Idaho 83720-0043	____ ____ X ____ ____	certified mail first class mail hand delivery facsimile e-mail
The Honorable John Garamendi Commissioner of Insurance State of California 300 Capital Mall, Suite 1700 Sacramento, California 95814	____ X ____ ____ ____	certified mail first class mail hand delivery facsimile e-mail

William R. Michels, MBA, CFE
Examinations Supervisor
IDAHO DEPARTMENT OF INSURANCE

DEPARTMENT OF INSURANCE

STATE OF IDAHO

REPORT OF EXAMINATION

of the

GENERAL FIRE & CASUALTY COMPANY

(NAIC Company Code 37931)

as of

December 31, 2004

NAIC Western Zone Participant:

California Department of Insurance

FILED 2/17/06 date initial

ADOPTED 3/22/06 date initial

STATE OF IDAHO
Department of Insurance

EXHIBIT

A

TABLE OF CONTENTS

State of Idaho
DEPARTMENT OF INSURANCE
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Phone (208) 334-4250
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DIRK KEMPTHORNE
Governor

GARY L. SMITH
Director

Boise, Idaho
February 17, 2006

The Honorable Gary L. Smith
Director of Insurance
NAIC Western Zone Secretary
State of Idaho
700 West State Street
Boise, Idaho 83720

The Honorable John Garamendi
Commissioner of Insurance
State of California
300 Capital Mall, Suite 1700
Sacramento, California 95814

The Honorable Alfred W. Gross
Commissioner
Chair, NAIC Financial Condition (E) Committee
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P. O. Box 1157
Richmond, VA 23218

Dear Director and Commissioners:

Pursuant to your instructions, in compliance with Section 41-219(1), Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2004 of the financial condition and corporate affairs, as well as examination of the Company's reinsurance risk transfer and loss reserving as of June 30, 2005, of:

<u>GENERAL FIRE & CASUALTY COMPANY</u>

2710 SUNRISE RIM ROAD, SUITE 100
BOISE, IDAHO 83705

hereinafter referred to as "Company" at its offices in Boise, Idaho. The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period January 1, 2001 through December 31, 2004, as well as examination of the Company's reinsurance risk transfer and loss reserving as of June 30, 2005. Material transactions and/or events occurring subsequent to the examination date(s) were also reviewed.

The examination was conducted at the Boise, Idaho office of the Company by examiners from the states of Idaho and California. The examination was conducted in accordance with Section 41-219(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, and the NAIC *Accounting Practices and Procedures Manual*. We performed our testing in order to achieve a confidence level commensurate with the risk assessed through utilization of the NAIC *Examiners Handbook*. Verification and valuation of assets, determination of liabilities and reserves, and an analysis and review of such other accounts and records as appropriate to the examination were also performed.

The actuarial review of reserves, related liabilities, and other actuarial items was performed by Taylor-Walker & Associates, Inc., consulting actuaries, for the Idaho Department of Insurance. A risk assessment review of the Company's IT systems and controls was performed by Regulatory Consultants, Inc. There was some reliance placed on the 2004 certified public accountant's statutory audit report and work papers during the examination of the Company.

A letter of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from management.

PRIOR EXAMINATION

The prior examination was conducted by the State of Idaho and covered the period from January 1, 2000 through December 31, 2000.

The Comments and Recommendations contained in that Report and the Company's response to those comments and recommendations were as follows:

REINSURANCE-Ceded.

It is recommended that the Company make its quarterly settlements in accordance with the reinsurance agreement.

Company Response

The Company is continually striving to produce reinsurance payments within the reinsurance agreement's 60-day limit. However, given the complexity of the agreement, both parties (the Company and ICH) are obligated to review data and mutually agree on the payment amount prior to the payment's submission. The Company disburses the settlement payment immediately thereafter. This settlement process has been mutually accepted by both parties over the past few years, and it is expected to remain the same unless changes to the agreement are made.

NOTES-Bonds.

(1) It is recommended that the Company reflect the bond rating as of the financial statement reporting date. The Company should also be able to provide support or documentation for those ratings. (2) During the review of Schedule D, Part 3, for bonds and stocks acquired during the year, it was noted that the Company had used both the settlement dates and trade dates for the date-acquired column. It is recommended that the Company use the trade date as the date acquired in future statements.

Company Response

The Company fully agrees with both recommendations and has prepared the subsequent 2001 Annual Statement accordingly. The Company has also taken the additional step to assign the duties of ensuring future compliance to a Statutory Accountant.

NOTES-Cash and Short term Investments.

When reviewing the Company's check register, it was noted that the register would list several checks with the same check number. Management indicated that this was a way for the Company to allocate the claim to different lines of business. However, when the claim is actually paid, it is written for the total amount on one check. This can cause some confusion, as in the case of check number 4409. The check register indicated a claim payment being allocated to two lines of business, one in the amount of $217 and the other in the amount of $373.43. The check register indicates that the $217 disbursement was voided. However, check number 4409 cleared the bank in the full amount of $590.43. The check register indicated that claim check number 4246 was voided and it also cleared the bank in the amount of $1,587.42.

During the review of the cash accounts, several items, which had no material effect on the financial statements, were noted and communicated to the Company. It is recommended that the Company continue to improve its internal controls and safeguards to further secure its funds and to reduce errors and discrepancies in its cash records.

Company Response

The Company's continuing efforts to improve internal controls have included the January 1, 2002 implementation of new accounting software. Version 6.0 of the "Enterprise Accounting System" (EAS) software from Sungard Insurance Systems has been adopted. This software eliminates the confusion that arises when claim checks are voided and reissued, while still allowing the Company to allocate various amounts to the various lines of business.

NOTES-Funds Held By or Held with Reinsured Companies.

At December 31, 2000, the Company calculated its underwriting year loss ratio at 54.57% and established an additional ceding commission receivable of $114,860.

During the examination, it was noted that, while the asset was calculated in accordance with the reinsurance agreement, the formula for incurred losses excludes any estimate for incurred but not reported (IBNR) losses. As of December 31, 2001, subsequent development of claims on policies written in 1999 and 2000 indicates that, instead of an asset, the Company will have to return approximately $824,000 of commissions and administration fees, for a net surplus reduction of approximately $938,860.

Company Response

The Company's 2001 annual statement reported the change in commissions from an asset to a liability. The final amount of commission liability was subsequently paid, when due, in the first quarter of 2002.

NOTES-Electronic Data Processing Equipment & Furniture, Fixtures and Equipment.

It is recommended that the Company properly identify the equipment in its inventory. It is recommended that the Company document credit card charges with purchase orders or invoices that identify the equipment purchased and its cost.

Company Response

The Company has purchased and implemented a new accounting software program to track furniture, fixtures and equipment, including EDP. This accounting program, entitled "Fixed Asset System" (FAS), is designed to track every separate class of fixed asset and to prepare reports on every reporting and managerial information basis.

NOTES-Receivable from Parent, Subsidiaries and Affiliates.

The $190,620 due from Command represented the contingent administration fees due the Company at December 31, 2000 on business administered by Command and written by Insurance Corporation of Hannover. It was determined by the Idaho Department of Insurance that contingent administration fees from Command were considered not admitted assets for this examination and for future periods unless circumstances change. The Company has agreed to this accounting treatment and reflected such treatment in its September 30, 2001 interim statement.

Company Response

The Company remains true to its word and abides by its agreement with the Idaho Department of Insurance.

HISTORY AND DESCRIPTION

The Company was incorporated under the name, General Fire & Casualty Company, on June 25, 1998, as an Idaho domestic stock property and casualty insurer. General Fire was authorized to transact the business of casualty, excluding workers' compensation; surety; marine and transportation; and property insurance.

In May of 1999, GF&C Holding Company was organized for the purposes of becoming the holding company and owner of General Fire & Casualty Company and any related businesses. The new holding company structure required the stockholders of General Fire to become stockholders of

GF&C Holding Company. All of the outstanding shares of capital common stock of General Fire were exchanged for shares of capital stock of GF&C Holding Company. GF&C Holding Company was the sole owner of General Fire, except for the shares held by the directors. The Department of Insurance approved the acquisition of General Fire by GF&C Holding Company on April 10, 2000.

On May 26, 2000, the General Fire Board of Directors approved the purchase of the shell of Universal of Omaha Casualty Insurance Company, a Nebraska company. Also approved on May 26, 2000 was General Fire's assignment of all rights and interest under the Stock Purchase Agreement, dated May 17, 2000, for the purchase of Universal of Omaha Casualty Insurance Company (Universal of Omaha) to GF&C Holding Company. As a result, GF&C Holding Company ultimately acquired Universal of Omaha Casualty Insurance Company.

On June 27, 2000, Universal of Omaha was issued Certificate of Authority No. 2609. On September 1, 2000, the unanimous consent of the shareholders and directors of General Fire approved General Fire's merger into Universal of Omaha, with Universal of Omaha being the surviving company. Also on September 1, 2000, Universal of Omaha was: 1) redomesticated to Idaho; 2) changed its name to General Fire & Casualty Company; and 3) re-issued an Idaho Certificate of Authority (No. 2609) under the name General Fire & Casualty Company.

The Company, operating under Idaho Certificate of Authority No. 2609, was licensed to transact business in 24 states, which include the following:

Arizona	Illinois	Minnesota	North Dakota	Utah
California	Indiana	Missouri	Oklahoma	Washington
Colorado	Iowa	Montana	Oregon	Wisconsin
Georgia	Kansas	Nebraska	South Dakota	Wyoming
Idaho	Kentucky	Nevada	Texas	

Capital Stock And Paid-In Surplus

As of December 31, 2004, the Company had authorized 2,000,000 shares of $1.50 par value common stock. Issued and outstanding common stock also totaled 2,000,000 shares, for capital in the amount of $3,000,000. GF&C Holding Company held 100% ownership of the issued and outstanding shares. The Company's Board of Directors in its July 27, 2000 meeting approved that all shares of Company stock be designated certificateless shares, as provided for in Idaho Code.

Reconciliation of the Company's capital account during the examination period was as follows:

Description	Par Value	Shares Issued	Common Capital Stock	Gross Paid In and Contributed Surplus	Total Capital Stock & Contributed Surplus
Balance @ December 31, 2000	1.50	1,974,301	$2,961,451	$ 262,684	$ 3,224,135
11/2001: Issued stock to GF&C Holding Co.	1.50	25,699	38,549	0	38,549
11/2001: GF&C Holding Co. cash infusion	NA			1,761,452	1,761,452
12/2002: GF&C Holding Co. cash infusion	NA			2,511,596	2,511,596
06/2004: GF&C Holding Co. cash infusion	NA			160,000	160,000
07/2004: GF&C Holding Co. cash infusion	NA			350,000	350,000
09/2004: GF&C Holding Co. cash infusion	NA			3,800,000	3,800,000
Balance @ December 31, 2004		2,000,000	$3,000,000	$8,845,732	$11,845,732

Dividends to Stockholders

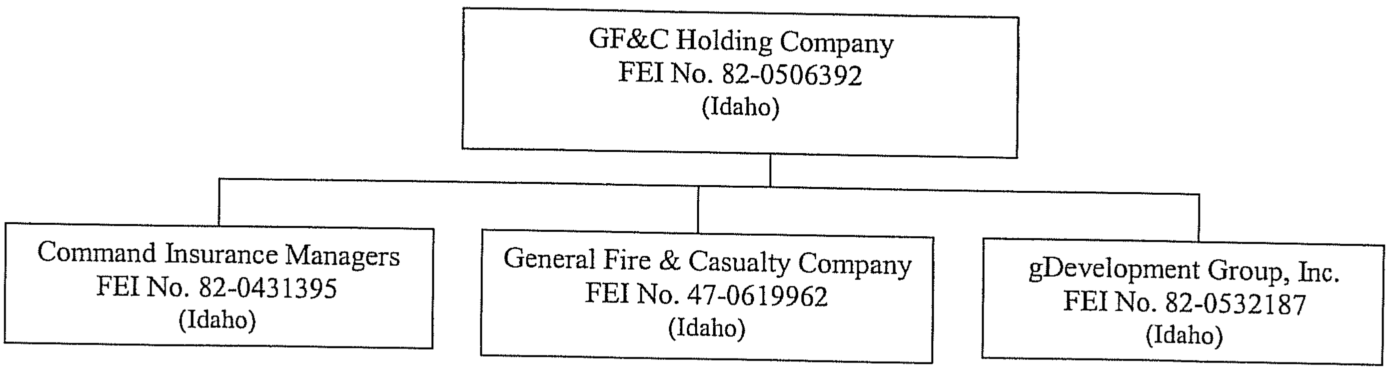
During the examination period, the Company did not declare, approve, pay, or distribute any dividends of any kind to its stockholders.

Acquisitions and Mergers

The home office property was sold in September 30, 2004 to GF&C Holding Company for $2,050,000. Subsequent to the examination period, the property was reacquired on September 30, 2005 for a purchase price of $2,140,000. The purchase was approved by the Company's shareholder, Board of Directors, and by the Idaho Department of Insurance.

MANAGEMENT AND CONTROL

According to the Holding Company System Registration Form B, as filed with the Department, the ultimate controlling entity of the Company was GF&C Holding Company through ownership of all outstanding shares of the Company's capital stock. Daniel W. Crandall, the ultimate controlling person, owns 12.7% (a combination of 9.6% common voting shares and 30.1% of preferred voting shares) of GF&C Holding Company. An organizational chart of GF&C Holding Company as of December 31, 2004 was as follows:



Note: All subsidiaries of GF&C Holding Company were owned 100 percent.

Directors and Officers

The following persons were serving as directors and officers at December 31, 2004:

Directors:

Name	Business Address
Daniel Crandall	Boise, ID
Gary Garnand	Twin Falls, ID
William Linzbach	Boise, ID
Gregory McDonald	Boise, ID
William Rawlings	Boise, ID

Officers:

Daniel Crandall	President
Alan Taylor	Secretary
Vern Child	Treasurer
Greg McDonald	Vice President

During 2005 the directors and officer were changed to the following persons:

Directors:

Name	Business Address
Daniel Crandall	Boise, ID
Gregory McDonald	Boise, ID
Vern Child	Boise, ID
Michael Smith	Boise, ID
Jack Stephens	Boise, ID

Officers:

Daniel Crandall	President
Vern Child	Secretary
Michael Smith	Treasurer
Jack Stephens	Executive Vice President

Committees

The minutes of the board of directors meeting held on June 29, 2001 reflected the approval of the dissolution of the all committees (Audit Committee, Executive Committee, and the Investment Committee.)

Conflict of Interest

On January 28, 2000, the Board of Directors adopted a resolution requiring each director to annually execute a conflict of interest statement. During the examination, conflict of interest statements were requested. Due to an oversight, the 2004 conflict of interest statements were not executed by the Company. However, the 2005 conflict of interest statements were provided for the directors of the Company. The review of these statements revealed no potential conflicts. The Company has Vice President positions that were appointed by the President. These positions appear to be key employees of the Company. The Company's policy also specifies that other key employees should complete a conflict of interest form. Therefore, it is recommended that the key employees also complete conflict of interest statements annually for the Company and have them reviewed by the Board of Directors

Contracts and Agreements

During the examination period, the Company had the following contracts and/or agreements in effect at December 31, 2004:

Financial Services and Licensing Agreement–GF&C Holding Company

This agreement was entered into as of October 1, 2004, by and between GF&C Holding Company (GF&C) and the Company. The agreement terminates on December 31, 2004; however it was automatically renewed subject to a termination by either party with a 30-day written notice.

GF&C agreed to provide the following:

1. Financial services, consolidated audits and income tax filings.
2. Options to non-exclusive licenses to all patents pending described in the agreement owned and controlled by GF&C.

GF&C received as compensation 1.3% of the Company's gross written premium. All amounts must meet the fair and reasonable standards as contained in Statement of Statutory Accounting Principles (SSAP) No. 25. The agreement may be terminated pursuant to the provisions stated therein upon giving 30 days written notice. The agreement was approved by the Idaho Department of Insurance.

Tax Allocation Agreement

On April 1, 2001, GF&C Holding Company entered into a federal tax allocation agreement with its subsidiaries, which included Command Insurance Managers, Inc., gDevelopment Group, Inc. and the Company. The agreement applied to tax year 2000 and subsequent years. Provisions of the agreement were as follows:

1. Each member of the group shall compute its separate tax liability and pay such amount to GF&C.
2. The subsidiaries are responsible for making estimated tax payments to the parent, and such payments will be used in determining the final tax liability of the subsidiary.
3. If the separate tax liability of any member exceeds the consolidated tax liability for the same period, GF&C shall pay to each such member its allocable portion of such excess within ten days of filing.
4. If part or all of an unused loss or tax credit is allocated to a member and is carried back or forward to a year in which such member filed a separate return, any refund or deduction shall be retained by that member.
5. If the consolidated liability is adjusted for any tax period, the liability of each member will be recalculated taking into consideration the adjustment. In case of a refund, the parent shall make payment to each member within ten days after the refund is received.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

During the examination period, there were no amendments to the Articles of Incorporation. However, on March 25, 2005, the Articles of Incorporation were amended to change the registered office to 2710 Sunrise Rim Road, Boise, Idaho, specify five new directors and include a provision eliminating directors having any liability pursuant to Idaho Code Section 30-1-202(2)(d). These amendments were approved by the Idaho Department of Insurance on May 31, 2005.

Subsequent to December 31, 2004, the Fifth Amended and Restated Bylaws, was approved by the board of directors and approved by the Idaho Department of Insurance on May 31, 2005.

Minutes of Meetings

A review of the minutes of the meetings of the shareholders, board of directors, and committees for the period January 1, 2001, through December 31, 2004, and subsequent thereto, indicated compliance with the Company's bylaws with respect to election of directors and the transaction of certain business. The annual shareholder meetings were not held in accordance with the bylaws of the Company. Therefore, it is recommended that the Company comply with the bylaws and hold its shareholders' meeting on the 23rd day of January in each year.

The review of the minutes also indicated that either a quorum was present at all Board of Directors' meetings or that unanimous written consents were properly executed. In addition, the Board of Directors authorized investments of the Company as required by Section 41-704, Idaho Code.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverages for the protection of the Company were maintained for the examination period. Coverages in effect as of December 31, 2004 included a crime insurance coverage, which covered employee theft; computer theft and funds transfer fraud; credit card forgery; depositor's forgery; and money orders and counterfeit paper currency losses up to $500,000. The deductible was $1,000. The crime insurance coverage met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook.*

Other insurance coverage maintained by the Company included property, insurance company professional liability, employers' and general liability, business automobile liability and property damage, workers compensation, and commercial umbrella coverages.

All insurance coverages maintained were issued by companies licensed in the State of Idaho with the exception of American International Specialty Lines Insurance Company. American International provided professional liability coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided a number of benefits to eligible employees, who could participate after specified periods of employment. The Company provided an Employee Handbook, which contained a description of the Company's policies and practices, compensation, employee benefits and leave policies, and general rules and discipline.

TERRITORY AND PLAN OF OPERATION

The Company, operating under Idaho Certificate of Authority No. 2609, was licensed to transact business in 24 states, which include the following:

Arizona	Illinois	Minnesota	North Dakota	Utah
California	Indiana	Missouri	Oklahoma	Washington
Colorado	Iowa	Montana	Oregon	Wisconsin
Georgia	Kansas	Nebraska	South Dakota	Wyoming
Idaho	Kentucky	Nevada	Texas	

Operations of the Company and investment management operations were conducted from its main administrative office located in Boise, Idaho.

All of the Company's commercial and agricultural insurance policies were written through resident and non-resident independent agencies and producers. Direct premiums written in 2004 were classified as 65 percent commercial multiple peril, 20 percent commercial auto liability, and 15 percent auto physical damage. At December 31, 2004, the Company had approximately 74 appointed agents, who were authorized to solicit business on its behalf. During the review of premiums written during the year, it was discovered that 2 individuals writing business for the Company were not appointed as required by Idaho licensing requirements and procedures. When it was brought to the Company's attention, these exceptions were corrected.

A portion of the Company's business prior to 2004 was written under the terms of a fronting arrangement and reinsurance agreement with Insurance Corporation of Hannover (ICH); whereby, the Company acted as an assuming reinsurer on business written on ICH's commercial agri-business multicover policy form. Further comments regarding the arrangement are included under the report caption "REINSURANCE." The Company administered this business through the Management and Administrative Services Agreement with Command Insurance Managers, Inc.

Agency Contracts

Independent agents and agencies produce business on behalf of the Company under terms of agency contracts. These contracts are effective on a continuous basis and may be terminated by either party upon 90 days written notice or terminated immediately as provided by other provisions. Agents and agencies are paid 15% commission on all new and renewal premiums for business placed with and written by the Company except as requested by the agent on a per policy basis.

The agent and/or agency is required to maintain accurate and complete records of transactions with policyholders and to transfer all premiums due to the company within 15 days after the first of the month in which the policy is bound or effective. Complete documentation of insurance coverage must be submitted no later than five working days following the insurance effective date.

STATUTORY AND SPECIAL DEPOSITS

Statutory deposit investments were verified as being held on custody deposit with US Bank, Boise, Idaho, for the protection of all policyholders and/or creditors. The Idaho Department of Insurance provided written confirmation of the following holdings:

Description	Par Value	Market Value	Statement Value
Boise City Idaho CTFS, 5.875%, 09/01/2012	$ 250,000	$ 267,927	$ 267,927
Boise-Kuna Idaho Irr Dist., 5.25%, 07/01/2008	265,000	286,425	286,425
Canyon County School Dist, 4.0%, 07/30/2007	170,000	170,606	170,606
Cassia & Twin Falls County ID, 4.45%, 08/01/2010	475,000	481,885	481,885
Bank of America Corp, 7.80%, 02/15/2010	275,000	321,222	321,222
Proctor & Gamble, 6.875%, 09/15/2009	250,000	282,235	282,235
Wal Mart Stores, 4.375%, 07/12/2007	284,000	290,597	293,600
Totals	$1,969,000	$2,100,897	$2,103,900

The deposits meet the general requirements and provisions of Sections 41-316A, 41-803 and 41-804, Idaho Code.

The company also had statutory deposits held in custody in other states. The following deposits were confirmed with the appropriate State Department of Insurance:

State	Description	Par Value	Market Value	Statement Value
Illinois	U S Treasury Bond, 5.625%, 05/15/2008	$475,000	$509,476	$513,791
Nevada	Canyon Cnty Sch Dist 3.75%, 07/30/2005	205,000	205,540	205,540
Wyoming	U S Treasury Bond, 6.125%, 08/15/2007	220,000	236,104	238,528
	Totals – Other States	$900,000	$951,120	$957,859

GROWTH OF THE COMPANY

The following schedule reflects the growth of the Company, as reported in the Company's annual statements, for the five-year period ending December 31, 2004:

Year	Net Admitted Assets	Liabilities	Surplus	Net Gain (Loss) From Operations
2000 *	$ 5,849,909	$ 1,052,851	$4,797,058	$ 790,826
2001	$13,735,308	$ 7,353,875	$6,381,433	$ (745,259)
2002	$28,314,871	$18,419,143	$9,895,728	$ 856,674
2003	$33,055,920	$23,543,185	$9,512,735	$ (590,035)
2004 *	$47,696,875	$38,140,057	$9,556,818	$(3,424,979)

* As determined by examination.

LOSS EXPERIENCE

The ratio of claims and underwriting expenses incurred to premiums earned, as reported in the Company's Annual Statements are scheduled below:

Year	Premium Earned	Losses & LAE Incurred	Expenses Incurred	Total Losses, LAE and Expenses	Ratio to Earned Premium
2000	$ 1,002,338	$ 733,356	$ 111,584	$ 844,940	84.3%
2001	$ 3,577,011	$ 3,096,680	$ 1,671,618	$ 4,768,298	133.3%
2002	$13,968,264	$ 9,592,653	$ 3,097,262	$12,689,915	90.8%
2003	$22,699,452	$15,030,071	$ 8,325,668	$23,355,739	102.9%
2004	$26,004,779	$21,041,033	$10,810,512	$31,851,545	122.5%

REINSURANCE

Assumed

The Company had no assumed reinsurance contract in effect as of December 31, 2004; however, the Company assumed reinsurance from Insurance Corporation of Hannover (ICH), an Illinois Corporation through a multi-line quota share reinsurance contract that has expired on January 1, 2004. In reality, this was a fronting agreement. ICH fronted for the Company in states where the Company had not been licensed to write business from 1999 through the latter part of 2003. After the Company had obtained the licenses in those states during the aforementioned period, this agreement, as mentioned earlier, was terminated on January 1, 2004. In this agreement, the Company as a reinsurer retained the first $75,000 for each property or casualty loss. ICH was liable for any amount in excess of $75,000 for each property or casualty loss up to $1 million. In addition, ICH's share of the premium was subjected to retro adjustment based on its share of the loss. This agreement went into run-off in 2004, and continued to be in run-off into 2005.

Ceded

As of December 31, 2004, the Company maintained excess of loss and catastrophic reinsurance protection, which varies based on type of coverage, as follows:

Type of Agreement	Reinsurer(s)	Company Retention	Reinsurers' Limits
First Multi-Line Excess of Loss (Property and Liability)	General Reinsurance Corporation	$75,000 per risk; also 10% of the reinsurer's layer of $350,000 effective April 1, 2004. (this agreement coordinates with the first multi-line agreement with Hannover listed below)	63% of $350,000 effective 4/1/2004; between 1/1/2004 to 3/31/2004, 70% of $350,000

Type of Agreement	Reinsurer(s)	Company Retention	Reinsurers' Limits
First Multi-Line Excess of Loss (Property and Liability)	Hannover Ruckversicherung-AG	$75,000 per risk; also 10% of the reinsurer's layer of $350,000 effective April 1, 2004. (this agreement coordinates with the first multi-line agreement with General Re listed above)	27% of $350,000 effective 4/1/2004; between 1/1/2004 to 3/31/2004, 30% of $350,000
Second Multi-Line Excess of Loss (Property and Liability)	General Reinsurance Corporation	$425,000 per risk (this agreement coordinates with the second multi-line agreement with Hannover listed below)	70% of $575,000
Second Multi-Line Excess of Loss (Property and Liability)	Hannover Ruckversicherung-AG	$425,000 per risk (this agreement coordinates with the second multi-line agreement with General Re listed above)	30% of $575,000
First Property Excess of Loss	Lloyd's Underwriter Syndicates (65%) Axis Specialty Limited (35%)	$1,000,000 per risk	$4,000,000
Second Property Excess of Loss	Lloyd's Underwriter Syndicates (65%) Axis Specialty Limited (20%) Hannover Ruckversicherung-AG (15%)	$5,000,000 per risk	$5,000,000
First Casualty Excess of Loss	Hannover Ruckversicherung-AG (45%) Platinum Underwriters Reinsurance Company (25%) Lloyd's Underwriter Syndicates (30%)	$1,000,000 per risk	$4,000,000
First Property Catastrophe Excess of Loss	Lloyd's Underwriter Syndicates (75%) Axis Specialty Limited (25%)	$500,000 each loss occurrence	90% of $2,500,000; 10% unreinsured
Second Property Catastrophe Excess of Loss	Lloyd's Underwriter Syndicates (75%) Axis Specialty Limited (25%)	$3,000,000 each loss occurrence	90% of $5,000,000; 10% unreinsured

Axis Specialty Limited is the only unauthorized reinsurer; all other reinsurers listed above are authorized in Idaho.

In early 2005, the Company's outside actuary reviewed the aforementioned first multi-line excess of loss reinsurance agreements with General Reinsurance Corporation and Hannover Ruckversicherung-AG (Hannover). It was determined that these agreements did not carry adequate risk transfer and were not in compliance with SSAP No. 62. Subsequently, the Company reported the accounting transactions of these agreements using deposit accounting in its 2004 Annual Statement as required by SSAP No. 75. After the above discovery, the Company terminated or non-renewed all of the aforementioned reinsurance agreements that were in effect on December 31, 2004 and started with a new reinsurance program on January 1, 2005. The first multi-line excess of loss reinsurance agreement with General Reinsurance Corporation was commuted in August, 2005; the Company received $7,748,403 from General Reinsurance Corporation on August 25, 2005. In November, 2005, the Company also commuted the first multi-line excess of loss reinsurance agreement with Hannover; it received $1,022,795 from Hannover on November 15, 2005. The remaining reinsurance agreements are currently being run-off.

The Company sought facultative reinsurance when the largest risk written exceeds the maximum reinsurance coverage provided above; this is done before the policy is issued.

Effective January 1, 2005, the Company started a new reinsurance program that provided reinsurance protection as follows:

Type of Agreement	Reinsurer(s)	Company Retention	Reinsurers' Limits
First Per Risk Excess-Property	American Re-Insurance Company (35%) Platinum Underwriters Reinsurance, Inc. (40%) Hannover Ruckversicherung-AG (20%) Lloyd's Underwriter Syndicates (5%)	$125,000 per risk	$375,000
First Casualty Excess of Loss	Employers Reinsurance Corporation (60%) Hannover Ruckversicherung-AG (40%)	$125,000 per risk	$375,000
Second Per Risk Excess-Property	General Reinsurance Corporation (100%)	$500,000 per risk	$500,000
Property Catastrophe Excess of Loss	Axis Specialty Limited (15%) Hannover Ruckversicherung-AG (10%) Lloyd's Underwriter Syndicates (75%)	$500,000 per loss occurrence	90% of $2,000,000; maximum of 90% of $4,000,000 for the term of contract
Second Casualty Excess of Loss	Employers Reinsurance Corporation (70%) Hannover Ruckversicherung-AG (30%)	$500,000 per risk	$500,000

Type of Agreement	Reinsurer(s)	Company Retention	Reinsurers' Limits
Third Per Risk Excess-Property	American Re-Insurance Company (50%) Aspen Insurance Limited (5%) Axis Specialty Limited (10%) Lloyd's Underwriter Syndicates (35%)	$1,000,000 per risk	$4,000,000
Third Casualty Excess of Loss	Employers Reinsurance Corporation (50%) Platinum Underwriters Reinsurance, Inc. (20%) Hannover Ruckversicherung-AG (30%)	$1,000,000 per risk	$4,000,000
Fourth Per risk Excess-Property	American Re-Insurance Company (50%) Aspen Insurance Limited (5%) Axis Specialty Limited (10%) Hannover Ruckversicherung-AG (15%) Lloyd's Underwriter Syndicates (20%)	$5,000,000 per risk	$5,000,000

Aspen Insurance Limited and Axis Specialty Limited are the only two unauthorized reinsurers listed in the above schedule; all others reinsurers are authorized in Idaho.

It was noted that the above reinsurance agreements, which became effective on January 1, 2005, carried adequate transfer of risk in compliance with SSAP No. 62.

The Company maintained a detail ledger account for reinsurance recoverables to keep track of the billings payments received. The two parties that the Company dealt with in 2004 include General Reinsurance and Guy Carpenter. The Company also kept detailed workpapers by claim numbers to keep track of the reinsurance receivable and payment amounts. These were sent to General Reinsurance and Guy Carpenter for billing purposes. The Company does not maintain an aging report for reinsurance recoverables on Loss and LAE expenses. It is recommended that the Company establish an aging report for reinsurance recoverable on Loss and LAE payments.

INSURANCE PRODUCTS & RELATED PRACTICES

POLICY FORMS

Summary of Plans and Coverages

The Company has filed three policies to write in Idaho and specializes in commercial and agricultural related property and casualty insurance. The Commercial Agricultural Multicover policy (CAM), was filed certified in Idaho in 2002 but the Company rewrote this business into their RiskManager policy that was filed certified in Idaho as of March 2003. The Company subsequently discontinued marketing the CAM policy in 2003. In addition, the Company filed certified the

CattleGuard policy in 2003, a specialized policy for insuring losses associated with the business of cattle. GF&C Holding Company has applied for a patent on the RiskManager policy. The Company obtains rights to the policy through the Financial Services and Licensing Agreement. This was discussed previously under "Management and Control – Contracts and Agreements."

Policy Form Filings

Beginning in 2003, the Rates and Forms Division of the Department of Insurance (DOI) began contacting companies on an annual basis to request a list of their form filings for the previous year. The DOI would then review the Company list and compare with the Department list and subsequently notify the Company of any differences. The Company indicated they had not returned the letter for 2003 to the Department. Therefore, it was necessary to compare the list of forms filed provided by the Department to the listing of form filings provided by the Company. There were no exceptions noted for 2003. The Company did, however, return the 2004 form listing letter to the Department. The Department was able to successfully reconcile the Company's 2004 forms listing to the forms on file with the Department, with no exceptions noted.

Rate Filings

The RiskManager policy rates were originally filed certified in March 2003 and later revised and accepted as filed certified on November 20, 2003. It was noted during the comparison of the DOI filing, and the rates filed in the Company system, that the first page of the November 20, 2003 rate filing was not included with the DOI filing. This appears to be an oversight and the Company was requested to file the missing page with the DOI immediately. The Company agreed to file the missing page within a week.

The CattleGuard policy rates were originally accepted as filed certified on June 13, 2003. Only two CattleGuard policies were ever sold in Idaho, one in 2003 and one in 2004 and both policies were sold at the original filed rates and have now expired. In addition, the Company has advised that they are not currently marketing the CattleGuard policy in Idaho.

The CattleGuard rates were not on the Company computer system for review, therefore the hard copies were requested. The Company provided two sets of rate pages, one was not labeled with a form number at the bottom; however, they were the rates that were filed with the DOI in June 2003. The second set of rates provided by the Company had a form number at the bottom of the pages of "CGRT 03 04." The Company explained that there had been a typographical error in the first set of rates filed with the DOI. There is no record at the DOI that these rates were filed. This is an examination exception.

Idaho Bulletin 91-1 indicates:

> …Use and file means every authorized insurer and every licensed rating organization which has been designated by any insurer for the filing of rates will file with the Director all rates and supplementary rate information and all changes and amendments thereof made by it for use in this state within 30 days after they become effective.

It is recommended that the Company file the CattleGuard rate pages CGRT 03 04 with the DOI at such time as they begin marketing the policy in Idaho again.

UNDERWRITING

New Business written in 2004

An ACL sample was to be selected based upon the Specific Risk Assessment (SRA) questionnaire and the Intended Reliance on Internal Controls as described on page 3-8 of the NAIC Financial Examiners Handbook – 2005 edition. However, the total new business policies written was less than the sample size indicated, therefore, all 18 new business policies were reviewed with zero expected deviations and an allowable error rate of 2. These were all RiskManager policies.

The new business review was conducted by reviewing Company records and documents as supplied over the internet. The ACORD Commercial Insurance Application was used in all submissions. All 18 applications were processed promptly by the Company and issued according to the receipt of any and all additional requested information. The Company indicated that either a down payment or full payment of premium was billed to the agent. The policy and endorsements were subsequently sent to the agent for delivery to the policyholder. All Declaration and Schedule pages and policies were issued in a timely manner from the date that coverage was bound. No exceptions were noted.

Cancellation/Non-Renewal of Policies

A review was performed of the Cancelled/Non-Renewed policies. The review was conducted by use of the Company's gNet and Document Locator systems. Because there were only 11 total policies, it was determined to review all 11 instead of a sample.

There were a total of five canceled policies reviewed. Three policies were canceled at the request of the insured. The first-named insured had signed ACORD Cancellation/Release forms; however there were no records to verify that a subsequent cancellation letter was sent to any of the first-named insureds. On February 24, 2004, the Company's Underwriting Procedures Committee issued a memo to the Underwriting Department adding additional documents to its system. One of these documents was entitled "Cancel for Insured Request." The Company Underwriting Guide and Procedures appear to indicate that the letter should be sent when cancelled by the insured. All three of the above specified files were cancelled after February 24, 2004, but no record was found in the system that the cancellation letter was being used.

It is recommended that the Company respond to the insured's request, in accordance with the Company's own written guidelines, and acknowledge the request for cancellation by issuing the "Cancel for Insured Request" document, which does specify the cancellation date and the reasons for the cancellation. The Company should also retain copies of the certified mailing as indicated in the Underwriting Guide.

The other two policies cancelled were for non-payment of premium. One policyholder was notified in accordance with the Idaho Code. However, the second policy was being handled by an outside finance company. On February 28, 2005 the Company received notice that the finance company was canceling the policy for non-payment of premium with a cancellation date of February 27, 2005. Further review indicated that there is a page in the Company underwriting procedures entitled "Premium Financing Procedures." This document indicates as follows:

> By accepting premium finance payment from finance companies, the Company is agreeing to their conditions and stipulations. One of these is that the Company acknowledges and accepts the Finance Company request to cancel for nonpayment of premium. The date of cancellation stated in the notice of cancellation sent to the insured by the finance company will be the effective date of cancellation.
>
> ...Cancellation of the policy will be processed by Underwriting. NOCs (Notice of Cancellation) are to be sent to lien holders by Underwriting. Date of cancellation will be the date as indicated by the finance company. NOC to lien holders will require the standard 10 day notice.

Both the CattleGuard policy and the RiskManager policy contain language that specifies the Company will notify the policyholder ten days in advance of the cancellation date when a policy is cancelled for non-payment of premium.

In the case reviewed, there were documents in the system that indicated that the Company subsequently sent cancellation notices to all additional insureds and lien holders, indicating this was to meet the obligations of the Company. The cancellation notices were mailed on March 1, 2005 specifying a cancellation date of March 11, 2005. The Company also has a procedure listed in their underwriting guidelines, specifically for finance company cancellations, that does indicate that a cancellation notice should be sent to the first-named insured as well as the additional insured's and lien holders. However, no record could be found of the Company sending a cancellation notice to the first-named insured.

The premium finance agreement between Premium Finance Specialists, Inc. (PFS) and the first-named insured gives the finance company the right to act on behalf of the insured by power of attorney, even in regards to canceling the policy. The cancellation notice that PFS mailed to the first-named insured was dated February 24, 2005 specifying a cancellation date of February 27, 2005. This notice did not allow the first-named insured the mandatory ten days notification that is specified in the Idaho Code. However, there is no agreement between PFS and the Company; the insuring company is the one that is obligated to the first-named insured in regards to meeting the cancellation notification requirements as specified in the Idaho Code.

It would appear that this is a violation of Idaho Code, Section 41-1842(3)(b)(i) that states in part:

> A notice of cancellation of insurance coverage by an insurer shall be in writing and shall be mailed or delivered to the first-named insured at the last known mailing address as shown on the policy. ...Notices of cancellation for the reason stated in subsection (3)(a)(i) of this section without regard to when such cancellation shall be effected shall be mailed or delivered at least ten (10) days prior to the effective date of cancellation. The notice shall state the effective date of the cancellation. ((3)(a)(i) refers to Nonpayment of premium-emphasis added)

It is recommended that the Company, regardless of when an outside finance company is involved or when they receive notice from same, send a cancellation for non-payment of premium notice to the first-named insured allowing the mandatory ten (10) days prior to the effective date of cancellation. Proof of such mailing should be retained in the Company system in accordance with Idaho Code, Section 41-1842(6).

There were a total of six policies non-renewed in 2004. In accordance with Idaho Code Section 41-1842(4), all first-named insured's were notified forty-five days in advance of the non-renewal date and, in accordance with Section 41-1842(6), all system files contained a proof of mailing in the form of certified mail receipts. No exceptions were noted.

Rejected/Declined Business

Twenty-eight applications for coverage were received and declined by the Company in 2004. All were declined for reasons in accordance with the Company minimum premium and/or underwriting standards. All Company responses were made in a timely manner. No applications were rejected based upon a geographical location except for those risks that included a request to insure property located in states that the Company is not currently licensed in. File documentation was adequate and no exceptions were noted.

Risk Retention

In 2003 the Company's retention limit was $75,000 per occurrence for all lines of business. In 2004 it was $75,000 up until 4-1-04 when the Company also retained 10% of the next $350,000. In 2005 it was discovered that there was no risk transfer in the first layer of reinsurance. Therefore, the actual retention for 2003 and 2004 was $425,000. As a subsequent event, for 2005 the Company changed reinsurers and adjusted its retention of the business it writes to $125,000 per occurrence for all lines other than Auto Physical Damage retaining 100 percent of the Auto Physical Damage premium and losses.

Statistical Reporting

The Company does not do any statistical claims reporting for Idaho.

GLB Privacy Act

The Company only writes commercial and agricultural policy lines of business. They do not write personal lines of business. At present, it does not appear that the Company is subject to the stringent requirements of the GLB Act in regards to privacy. However, it was noted that the Company does produce a one page document entitled "For Your Information and Protection," in regards to the Company's general policies in maintaining policyholders' privacy. This one-page document is supplied to the policyholder at the time the policy is delivered. The rest of the review was waived as inapplicable to the Company at this time.

Credit Scoring

In Idaho, the credit scoring statute only applies to personal lines of insurance. The Company only writes commercial policies; therefore, no credit scoring review was required.

ACCOUNTS AND RECORDS

General Accounting

As of the examination date, the Company's data processing system consisted of a personal computer based system. Management indicated that the system utilized Microsoft Windows 2003

Server and Microsoft SQL operating software. Effective May 1, 2004, the Company utilized the following application software:

Accounting	EAS Accounting Software
Underwriting	Custom In-house Web Application – gNet
Claims	Custom In-house Web Application – gNet
Fixed Assets	FAS Accounting Software
Investments	EPS Accounting Software

The accounting, fixed assets and investment software were obtained from outside vendors, while the insurance policy administration system, claims and rating system currently in use were developed in-house. The accounting system produces accounting reports, such as general ledger transactions, journals, trial balances, cash disbursements, accounts receivable, loss reports, and written and earned premium reports.

The Company's 2004 general ledger and non-ledger amounts were reconciled to the 2004 annual statement filed with the Idaho Department of Insurance. An accounting spreadsheet was prepared supporting the reconciliation and no exceptions were noted.

Independent Accountants

Ernst & Young (E&Y) of Salt Lake City, Utah was the Company's independent auditor for the years 2001 through 2003. On November 15, 2001, the Board of Directors approved Ernst & Young as the independent auditor. On March 25, 2005, the Board approved Eide Bailly as the independent auditor for 2004. The Company properly notified the Idaho Department of Insurance that there were no disagreements with the prior auditor. E&Y also confirmed this in a letter to the DOI.

The independent auditor's reports issued for all years under examination indicated the accompanying statutory balance sheets and related statements presented fairly, in all material respects, the financial position of the Company on a statutory basis. In compliance with Idaho DOI Administrative Rule No. 62 (IDAPA 18.01.62) the independent auditors' reports for the period under examination were filed with the Idaho Department of Insurance.

The independent auditor's 2004 workpapers and supporting documentation were made available to the DOI examiners and some reliance was placed on these workpapers during this examination. When the auditor's workpapers were utilized during this examination, such workpapers were denoted to indicate such utilization.

Actuarial Opinion

The unpaid claims reserves and related liabilities were calculated by the Company and reviewed by Stephen J. Streff, consulting actuary with Streff Insurance Services, of Red Wing, Minnesota. The Board of Directors approved Streff Insurance Services as the Company's actuary on March 25, 2005. The actuary, using standard actuarial procedures, then determined the incurred loss reserves and issued a statement of opinion. The opinion stated that the amounts of the reserves:

a. meet the requirements of the insurance laws of Idaho;

b. are computed in accordance with accepted reserving standards and principles; and

c. make a reasonable provision for all unpaid loss and loss expense obligations of the company under the terms of its policies and agreements.

The identified actuarial items are listed as follows:

Loss Reserves

A.	Reserve for Unpaid Losses (Page 3, Line 1)	$13,114,519
B.	Reserve for Unpaid Loss Adjustment Expenses (Page 3, Line 3)	$3,068,964
C.	Reserve for Unpaid Losses – Direct and Assumed (Schedule P-Part 1, Total of Columns 13 and 15)	$20,775,000
D.	Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P-Part 1, Total of Columns 17, 19, and 21)	$3,594,000
E.	The Page 3 write-in item reserve, "Retroactive Reinsurance Assumed"	$0

Premium Reserves

G.	Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	$0
H.	Reserve for Net Unearned Premiums for Long Duration Contracts	$0

The following Loss Reserve Disclosures were also included:

A.	Materiality Standard expressed in $US	$1,500,000
B.	Statutory Surplus	$9,556,818
C.	Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P	$165,000
D.	Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P	$0
E.	The net reserves for losses and expenses for the company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.	$0
F.	The net reserves for losses and loss adjustment expenses that the company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.*	

1) Asbestos, as disclosed in the Notes to Financial Statements	$0
2) Environmental, as disclosed in the Notes to Financial Statements	$0

G. The total claims made extended loss and expense reserve (Schedule P Interrogatories).

1) Amount reported as loss reserves	$0
2) Amount reported as unearned premium reserves	$0

H. Other items on which the Appointed Actuary is providing relevant Comment (list separately)	$0

* The reserves disclosed in item F above, should exclude amounts relating to contracts specifically written to cover asbestos and environmental exposures. Contracts specifically written to cover these exposures include Environmental Impairment Liability (post 1986), Asbestos Abatement, Pollution Legal Liability, Contractor's Pollution Liability, Consultant's Environmental Liability, and Pollution and Remediation Legal Liability.

See the "NOTES TO FINANCIAL STATEMENTS" section, later in this report, for discussion of the Department's examining actuaries' analysis.

Evaluation of Controls and Information Systems

A limited EDP exam was conducted for the Idaho Department of Insurance by Jenny Jeffers, CISA, AES of Regulatory Consultants, Inc. The exam was conducted at the General Fire & Casualty Company offices in Boise, Idaho. The examination was performed in accordance with the guidelines and procedures set forth in the Exhibit C, Evaluation of Controls in Information Systems Questionnaire (ISQ) of the NAIC's *Financial Condition Examiners Handbook.*

Scope

- Review the NAIC IS Questionnaire (Exhibit C) responses from the company and follow up on any issues
- Analyze a major system through which General Fire Insurance Company data is processed
- Obtain or create a data flow for the financially significant systems which process General Fire Insurance Company business and feed the G/L system for use by financial reporting
- Examine the controls in place in each piece of this process and observe the data flowing through the system.
- Observe the physical and system controls in place at the Main Computer Facility
- Review the system security measures regarding access to all major systems
- Review the Disaster Recovery Plan

Procedures

The procedures included:

- Interviews with key personnel as indicated

- Interviews with key personnel with regard to Systems functions
- Observation of the procedures and controls in processing major business functions
- Review the NAIC IS Questionnaire responses from the company and follow up on any issues

The ISQ was reviewed during the on-site visit with:

Andrew Parrish – IS Manager
Paul Crane – Sr. Programmer/Analyst

The ISQ was completed by Ty van den Akker, Vice President of Technology. One week prior to the on-site visit, Mr. van den Akker left General Fire for a position outside of the Company and therefore was not available for interview. Brett Johnson, Sr. Programmer Analyst had been assigned to take over the duties of the vacated position. Mr. Johnson was out of town for the week of the on-site exam. Several documents were requested that were believed to be on Mr. van den Akker's computer or in his folders on the servers. These documents were not available to the other personnel. It became evident that there was no sharing of information between Mr. van den Akker and his Department with regard to planning and strategy. Several IT vacancies had also been created by a second layoff and departures during the month of March 2005.

<u>ISQ Section A – Management Control and ISQ Section B – Organization Control</u>

The management and organization controls of the IT Department at General Fire were in a state of some turmoil with the loss of Ty van den Akker.

- Documents were not able to be located
- Project plans were not available for review for the new system development project
- IT Strategies for the future were not known by Paul Crane and Andrew Parrish
- Agendas for Strategic Planning meetings with CEO were not available

At the time of the IT examination, the Company's IT Department was in a state of reorganization. Unfortunately, in the past, the strategies, project plans and process documents had not been made available to the IT personnel and were not maintained in a location known and available to remaining personnel. Brett Johnson was out of the country, but he did not provide the location of the requested documents to the personnel participating in the exam. The Programming and Network staff were aware of appointed tasks; however, no management knowledge was evident.

It is recommended that the IT Policies and Procedures, Project Plans and Strategic Documents as well as documentation (agendas or minutes) for strategic planning meetings with upper management should be maintained in a location known and available to appropriate individuals.

<u>ISQ Section C - Changes to Applications</u>

Change management processes were discussed with Paul Crane, Sr. Programmer/Analyst. Development was currently being done in *.net* and the applications are browser based. The document describing most of the processes with regard to program modification and change management was reviewed.

Versioning is controlled using SubVersion, an acceptable versioning tool. However, the database versioning was not included in this control system and it was controlled with manual procedures.

The procedure was examined and testing during the on-site visit confirmed that the procedures are being followed.

Observation of the process of change control with Paul Crane revealed that it would be possible for a change to be made to a program after it is tested and prior to its being moved to production. There are, however, procedures to prevent this from happening. The procedures, coupled with the small size of the remaining staff, indicate that the procedural control is effective overall.

Application and technical documentation were not created and maintained for applications prior to the development of the Apollo project. The Apollo project was a large, proposed initiative to develop one system to perform all aspects of processing for General Fire. It was noted, however, that there was documentation being created for Apollo. Therefore, application and technical documentation was being created for new applications.

In conclusion, it is recommended that the change control process should be strengthened to include the possibility of a change being made to a program after it is tested and prior to its being moved to production.

ISQ Section D - System and Program Development

This section was not completed as the scoping note indicates that the section may be omitted if no new development or implementation of new financially significant packages has taken place during the period under review.

During the site visit, the rewrite of the current system was discussed, however. Due to the extensive rewrite, actually a new development project, the methodology was discussed and reviewed with Paul Crane, Sr. Programmer/Analyst.

Documents were requested and provided to the examiner documenting the planning process for the projects currently under development.

It was noted that the documents had not been updated following the changes in staff (Ty van den Akker's departure and Brett Johnson's new responsibilities). The updating project was still making progress but lacked leadership during the period of the site visit. Conversations with Mike Smith, Sr. Vice President of Finance and James Anderson, Controller, indicated that the new Apollo project was being re-evaluated with respect to the new system being considered and reviewed by Brett Johnson for future processing pet insurance. This situation, however, was not generally known by the IT department at the time of the site visit and therefore was not discussed with them.

ISQ Section E - Operations

The housing of the main computer facility is outsourced to Fiberpipe data center located in Boise. The facility was visited and found to have excellent controls and safety features. The Fiberpipe facilities are their product. The fire system, accommodations, air conditioning, power supply, generators and access control were found to be professional and state of the art.

In summary, this section of the ISQ and all processes involved with operations and the facility were found to be adequate.

ISQ Section F - Processing Controls

In accordance with the directions in the scoping notes – this section was not completed by the company. However, the process of check printing and the controls around this process were determined to be important to the completion of the IT exam and therefore were observed and documented during the exam.

Claim checks were printed by Terra Copher. The check stock is provided to Ms. Copher by Leslie Tavares, who creates the pre-printed check stock by printing the format on plain check stock. This allows Ms. Tavares to control and track check numbers. The complete claim check printing process was observed and the controls found to be adequate with the following exception:

Gary Jaques, Sr. Claims Examiner and Brett Helmandollar, Vice President of Claims were able to enter a check payment, add a new vendor, approve a claim check for printing and sign the printed check.

It is recommended that Gary Jaques and Brett Helmandollar not be authorized to sign checks that they have approved. Additionally, it is recommended that someone other than the claims processors be required to add vendors. This will lessen the possibility of fraudulent activity in the payment of claims.

Subsequent to the examination, an email from Brett Helmandollar, Vice President of Claims, relating the change in the check processing and signing procedures at the recommendation of the examiner was received.

Additionally, the processes for commission and accounts payable checks were observed with Leslie Tavares, Account Analyst. The processes are documented and the documentation was provided to the examiner.

The check stock and unprinted plain check stock is kept in a locked drawer beside Ms. Tavares' desk. Ms. Tavares prints the form onto the checks used for printing claim checks. The process was observed to be adequately controlled.

ISQ Section G - Documentation

In accordance with the directions in the scoping notes – this section was not completed by the company. However, the need for documentation is vital to the consistent and controlled processing of information. Therefore Section G was discussed with Paul Crane and Andrew Parrish.

General Fire does not have a Documentation Standards Manual, checkoff list or minimum documentation for applications.

It is recommended that documentation be included as a requirement of all future applications.

ISQ Section H - Outside Service Center Controls

This section was determined by the company to be N/A.

It was discovered that a TPA is used to process billing. Additionally, the outsourcing of the facilities to Fiberpipe would fall in this category. The point of this section is to insure that the company is monitoring the performance and economic stability of the service provider.

The SLA (Service Level Agreement) between General Fire and Fiberpipe was reviewed and found to be adequate.

The process and interaction between General Fire and Premium Finance Specialists, Inc. (PFS) were reviewed. The need for the billing to be done by an outside provider is due to the fact that the current main system cannot produce billings as needed.

Although Ms. Tavares does an excellent job of coordinating the billing and receipt of payments with the posting of the payments to the appropriate policy holder account, the process is manually intensive and introduces the possibility of inappropriate or delayed application of payments to accounts.

It is recommended that the billing be included in the new system being developed or purchased to improve the accuracy and timeliness of the application of payments and control of the premium billing.

Additionally, these service providers (Fiberpipe and PFS) should be included in Section H for the next Exam.

ISQ Section I - Logical and Physical Security

During the on-site visit, the physical security of the facility at Fiberpipe was found to be excellent. The testing of the logical security produced a good result with one exception, which was Ty van den Akker, whose account had the password changed but was still active to allow the review of emails and access to sensitive files.

The gNet application (a web based application that can be accessed from any computer with internet access) does not include adequate control over terminated access. Currently the check box indicating terminated does not function properly. In the case of a terminated employee, sometimes the access is disabled. The test scenario was where the individual was still a part of one or more groups in the "Member Of" section of the profile. gNet was looking for the group to decide what access (claims, premium, etc.) the person should have over the web. If the group was there, access was granted. The test revealed that access was still available. However, the workaround in place did work – in that the password database is modified to have a different and invalid password.

This brought to light another and more serious fact - the existence of the password database, which is not encrypted, is a breach of security controls.

It is recommended that the security of gNet be modified to be more effective and that the password database, at a minimum, be encrypted.

It was noted that Andrew Parrish and Paul Crane went to work immediately on this after the situation was communicated to the Company by the examiner.

ISQ Section J - Contingency Planning

The Disaster Recovery plan for Fiberpipe was not made available for review but was discussed with Andrew Parrish. The plan is in place. It was suggested that Mr. Parrish review the recent tests of the plan and make sure that there was no danger of General Fire being inoperable. Fiberpipe provides the building and controlled environment, but the equipment is the property of the various clients.

Whereas the Disaster Recovery process for the infrastructure would be the responsibility of Fiberpipe, the Business Continuity Plan (BCP) is the responsibility of General Fire personnel. No BCP currently exists at the company. It was pointed out that the type of insurance sold by General Fire could make a difference if claims were not paid timely.

Andrew Parrish is reviewing a methodology for developing an effective business contingency plan in cooperation with the business units of the company. This was discussed with Mike Smith and James Anderson at the end of the exam and they committed to the development of a Business Continuity Plan.

Finally, it was noted there were no written instructions to recover the system on the backup equipment in the building. Therefore, it is recommended that instructions should be written and made available to management in case of a disaster at Fiberpipe.

ISQ Section K - E-Business Controls

The ISQ was completed by the Company indicating that section K is N/A. However, gNet is a web based application that can be accessed from any computer with internet access. Claims were submitted and new business was processed over this system. Therefore, the Company was requested to complete section K with regard to the type of business done over the internet. Sales were not done via the internet and the processes were only available to employees of the Company. Therefore, some aspects of the questionnaire were N/A. Thorough discussions were held with Andrew Parrish regarding security around the gNet system. This was written up under ISQ Section I in this report. The information requested, and provided in an attachment to the ISQ, was discussed with Mr. Parrish. This information indicated an acceptable level of control and monitoring. See the "<u>ISQ Section I - Logical and Physical Security</u>" of this exam report for a more detailed discussion, and recommendation, regarding this area.

ISQ Section L - Wide Area Network and Internet

No exceptions were noted with regard to the WAN and Internet Usage.

Conclusion

General Fire Insurance Company has a secure environment for the data assets of the Company with the exceptions noted above. All of the recommendations made in this report were discussed with the Company and most were in the process of being implemented or reviewed at the conclusion of the examination. The IT department is in transition with the departure of Ty van den Akker, but the personnel are capable and dedicated to the good of the company. The final evaluation of control risk included the following determination: medium to high reliance on internal controls, with a range of identified risk of low to medium.

SUBSEQUENT EVENTS

As of December 31, 2004 the Company had failed to maintain the required surplus stipulated in the original agreement with the California Department of Insurance. The agreement tied certain conditions to the issuance of the Company's California Certificate of Authority. Therefore, subsequent to the examination date, the Company voluntarily ceased writing all business in California. In September 2005 the Company discovered that, according to California DOI, it could have continued to renew business, just not write any new business. So, as of October 2005, the Company began, again, to renew California policies. The Company has been in on-going discussions with California DOI during 2005 regarding this matter; a decision on a request by the Company to allow it to begin writing new policies in California is pending.

Also, subsequent to the examination date, the Company developed a new line of business that writes pet insurance. The line of business is referred to as "*Pets Best Insurance*" and policies are to be sold mainly over the internet. The Company's Idaho Certificate of Authority permits the Company to write pet insurance under the "Property" category. However, approval to change the California Certificate of Authority, to allow the pet insurance line of business, is currently pending. Active selling of the policies began in October of 2005.

On August 5, 2005, GF&C Holding Company made a contribution of 140,402 common stock shares of Veterinary Pet Services, Inc. (VPS) to the Company in order to provide a source of capital for the new pet insurance line of business. However, on August 19, 2005, according to a Form 8-K filed with the U.S. Securities & Exchange Commission (SEC) by VPS:

> Veterinary Pet Services, Inc. merged with and into its wholly-owned subsidiary, Veterinary Pet Insurance Company ("VPI"). VPI is the survivor of the merger. All outstanding shares of common stock of the Company have been converted into common stock of VPI in a one-for-one exchange...After the merger is completed, the surviving company will no longer be a registrant subject to Section 12(G) of the Securities Exchange Act of 1934...However, the surviving company will continue to be fully regulated by the California Department of Insurance in accordance with the California Insurance Code.

General Fire & Casualty reported the VPS stock as an investment on its September 30, 2005 statutory statement filed with the Idaho Department of Insurance. However, as discussed above, by August 19, 2005 a merger of VPS into Veterinary Pet Insurance Company (VPI) had been effectuated. Therefore, the value/basis of the investment in the survivor of the merger, Veterinary Pet Insurance Company, should have been reported on the September 30, 2005 General Fire quarterly statement. As indicated in the SEC Form 8-K, VPI stock is not publicly traded. The NAIC Securities Valuation Office (SVO) prescribes the following basis for valuing privately held common stock of an insurance company (see SVO Manual, July 1, 2005, Part Six, page 5, paragraph (f)):

> The Unit Price of a common stock issued by an insurance company is its book value. Book value shall be calculated by (i) ascertaining capital of the insurance company as reported on the company's latest NAIC Financial Statement Blank or report of examination, (ii) ascertaining the company's surplus (excluding from surplus any reserves required by statute and any portion of surplus properly allocable to policyholders), (iii) subtracting the greater of par or redemption value of the company's preferred stock and the face value of surplus notes (other than144A note offerings) from the total amount of such capital and surplus and (iv) dividing the remaining amount by the number of shares of the company's common stock outstanding.

The following table shows the original valuation of the VPS stock (pre-merger) as reported on General Fire's September 30, 2005 quarterly statement, compared to the corrected value of the VPI stock (post-merger survivor). The new VPI valuation is based upon the 2004 VPI annual statement statutory book value. Therefore, in order to correctly reflect the stock value of the post merger survivor, a write-down of the stock investment of $1,347,217 is required:

Stock Valuation Table

Investment Description	# of Shares	$ Per Share	Total Carrying Value
VPS Value as reported on the General Fire 9/30/05 Quarterly Statement	140,402	$11.004074	$1,544,994
VPI Post-Merger Value **(a)**	140,402	$ 1.408651**(b)**	$ 197,777
Required Write-Down		$ 9.595423	$1,347,217

(a) Based upon 2004 VPI Annual Statement (before California DOI examination adjustments).
(b) VPI 2004 Statutory Capital & Surplus............. $7,946,755
VPI Post-Merger Common Shares Outstanding.... 5,641,395 = $1.408651 / common share

In conclusion, it is recommended that General Fire & Casualty Company correctly value the VPI investment at $197,777 in its 2005 annual statement, using the VPI 2004 statutory book value as a basis (or the latest annual statement filed by VPI).

FINANCIAL STATEMENTS

The financial section of this report contains the following statements and exhibits:

Assets as of December 31, 2004

Liabilities, Surplus and Other Funds as of December 31, 2004

Underwriting and Investment Exhibit for the Year Ending December 31, 2004

Capital and Surplus Account for the Year Ending December 31, 2004

Reconciliation of Capital and Surplus, December 31, 2001, through December 31, 2004

ASSETS

As of December 31, 2004

	Ledger Assets	Assets not Admitted	Examination Adjustments	Admitted Assets
Bonds	$ 14,890,235	$ 0	$ 0	$ 14,890,235
Stocks:				
Preferred stocks	248,471	0	0	248,471
Common stocks	885,146	0	0	885,146
Real estate:				
Properties occupied by the company (Note 1)	260,290	0	0	260,290
Properties held for sale	0	0	0	0
Cash and short-term investments	9,134,005	0	0	9,134,005
Interest income due and accrued	292,828	0	0	292,828
Uncollected premiums in course of Collection	1,483,287	64,949	0	1,418,338
Deferred premiums booked but deferred and not yet due	3,981,347	0	0	3,981,347
Amounts recoverable from reinsurers	1,537,568	0	0	1,537,568
Funds held by or dep. w/ reinsurance co.	2,278,987	0	0	2,278,987
Other amounts receivable - reinsurance	233,247	0	0	233,247
Current federal income tax recoverable	1,477,758	0	0	1,477,758
Net deferred tax asset	1,805,541	1,218,239	0	587,302
Guaranty funds receivable or on deposit	21,825	0	0	21,825
Electronic data processing equipment	439,779	0	0	439,779
Furniture and equipment	181,171	0	0	181,171
Receivable from parent	342,959	0	0	342,959
Other assets nonadmitted	30,198	30,198	0	0
Leasehold improvements	11,938	11,938	0	0
Other assets Reinsurance deposits per SSAP No. 75	9,485,619	0	0	9,485,619
Total Assets	$49,022,199	$1,325,324	$ 0	$47,696,875

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2004

		Examination Adjustments	
Losses (Note 2)			$13,114,519
Loss adjustment expenses (Note 2)			3,068,964
Other expenses			55,201
Taxes, licenses and fees			594,122
Unearned premiums (Note 3)			15,171,202
Ceded reinsurance premiums payable			5,348,822
Amounts withheld or retained by company as agent or Trustee			203,255
Payable to parent, subsidiaries and affiliates			583,972
Total Liabilities			$38,140,057
Common capital stock			$ 3,000,000
Gross paid in and contributed surplus	$8,845,732		
Unassigned funds (surplus)	(2,288,914)	0	6,556,818
Total Capital and Surplus			$ 9,556,818
Total Liabilities, Surplus and Other Funds			$47,696,875

UNDERWRITING AND INVESTMENT EXHIBIT

For the Year Ending December 31, 2004

	Per Examination
UNDERWRITING INCOME	
Premiums earned	$26,004,779
Losses incurred	16,394,902
Loss expenses incurred	4,646,131
Other underwriting expenses incurred	10,751,757
Command management fees for underwriting services	58,755
Total underwriting deductions	31,851,545
Net underwriting gain or (loss)	$(5,846,766)
INVESTMENT INCOME	
Net investment income earned	411,313
Net realized capital gains (losses)	377,164
Net investment gain or (loss)	788,477
OTHER INCOME	
Net gain or (loss) from agents' or premium balances charged off	2,032
Finance and service charges not included in premiums	316,907
Gain/(loss) on disposal of fixed assets	(6,753)
Total other income	312,186
Net income before dividends to policyholders and federal income taxes	$(4,746,103)
Dividends to policyholders	0
Net income after dividends to policyholders but before federal income taxes	$(4,746,103)
Federal income taxes	(1,321,124)
Net income	$(3,424,979)

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2004

	Per Examination
Surplus as regards policyholders, December 31, previous year	$ 9,512,735
Net income	$(3,424,979)
Change in net unrealized capital gains or (losses)	20,528
Change in net deferred income tax	183,830
Change in nonadmitted assets	(625,248)
Change in provision for reinsurance	145,000
Capital changes:	
Paid in	0
Surplus adjustments:	
Paid in	4,310,000
Aggregate write-ins for gains and losses in surplus:	
Effect of 2002 and 2003 reinsurance adjustments for change in surplus	(565,048)
Change in surplus as regards policyholders for the year	$ 44,083
Surplus as regards policyholders, December 31, current year	$ 9,556,818

RECONCILIATION OF CAPITAL AND SURPLUS

December 31, 2001 through December 31, 2004

	2001	2002	2003	2004
Surplus as regards policyholders, December 31, previous year	$4,797,058	$6,381,434	$9,895,728	$9,512,735
Net income	(745,259)	856,674	(590,035)	(3,424,979)
Change in net unrealized capital gains or (losses)	224,426	(39,292)	102,478	20,528
Change in net deferred income tax	83,588	316,715	776,872	183,830
Change in nonadmitted assets	(31,067)	(102,858)	(527,308)	(625,248)
Change in provision for reinsurance	0	0	(145,000)	145,000
Cumulative effect of changes in acct. prin.	62,069	0	0	0
Capital changes:				
Paid in	38,548	0	0	0
Surplus adjustments:				
Paid in	1,761,452	2,511,596	0	4,310,000
Aggregate write-ins for gains and losses in surplus:				
Add back 2000 statutory exam adjustments booked by Company in 2001.	190,619	0	0	0
Effect of 2001 audit adjustments in 2002	0	(28,542)	0	0
Effect of 2002 and 2003 reinsurance adjustments for change in surplus	0	0	0	(565,048)
Change in surplus as regards policyholders for the year	1,584,376	3,514,294	(382,993)	44,083
Surplus as regards policyholders, December 31, current year	$6,381,434	$9,895,728	$9,512,735	$9,556,818

NOTES TO FINANCIAL STATEMENTS

Real Estate (Note 1) $260,290

As of December 31, 2004, the Company owned a small piece of property that it planned to improve and make a parking lot for the Company's employees to use. During the 2004, the Company sold its home office building to the parent, GF&C Holding Company (GF&C), for $2,050,000. Subsequent to examination period, on September 30, 2005 the Company repurchased the home office building from GF&C for $2,140,000. Both of these transactions were approved by the Idaho Department of Insurance prior to the actual transaction.

Loss Reserves (Note 2) $13,114,519
Loss Adjusting Expenses (LAE) Reserves (Note 2) $ 3,068,964

The actuarial portion of the examination was conducted for the Idaho Department of Insurance by Glenn Taylor, ACAS, MAAA and Randy Ross, ACAS, MAAA of the firm Taylor-Walker & Associates, Inc. Based upon the examining actuaries' final report and supporting analyses, the Company's 2004 Annual Statement and June 30, 2005 Quarterly Statement reserves were within the examination indicated reasonable range of reserves. Therefore, there were no recommend adjustments to the Company's booked loss and LAE reserves.

The Company's potential liability for premium deficiency reserves was also reviewed based on the estimates of ultimate losses and LAE. A review of historical loss and expense ratios did not indicate that such a reserve should be established.

Unearned Premiums (Note 3) $15,171,202

The Company could not reproduce the formula used in the calculations of its unearned premiums, other than to say they would calculate the earned portion of each premium and subtract the result from the written portion to develop the unearned premium.

The examiner also noted that the company calculated an unearned premium on the canceled policies. The total unearned premium for a cancelled policy was actually calculated to be a negative unearned premium. Also, the amounts of some of the unearned premiums (particularly those with issue dates of December 31) were calculated to be larger than the actual premium. The company could not explain how this occurred.

Therefore, the examiner recalculated 100% of the unearned premiums using the information provided by the Company. The resulting total gross unearned premium of $18,551,493 was only $464 more than the gross amount the Company reported on the annual statement of $18,551,029. Due to immateriality there will be no financial adjustment for the examination report. However, it is recommended that the Company review its procedures and formulas for calculating the unearned premiums and to document these procedures and formulas.

SUMMARY, COMMENTS, AND RECOMMENDATIONS

Summary

The examination disclosed that, as of December 31, 2004, the Company had admitted assets of $47,696,875, liabilities of $38,140,057, common capital stock of $3,000,000, gross paid in and contributed surplus of $8,845,732, and unassigned funds (surplus) of ($2,288,914); for a total surplus as regards policyholders of $9,556,818. This amount met the minimum requirements pursuant to Section 41-313, Idaho Code.

Comments and Recommendations

In addition to the following comments and recommendations, the Idaho Department of Insurance has presented the Company with a management letter containing matters that the Department and EIC deemed not sufficiently significant for inclusion in this examination report.

Page	Description
7	Conflict of Interest - It is recommended that the key employees also complete conflict of interest statements annually for the Company and have them reviewed by the Board of Directors.
9	Minutes of Meetings – It is recommended that the Company comply with its bylaws and hold its shareholders meeting on the 23rd day of January in each year.
15	Reinsurance – It is recommended that the Company establish an aging report for reinsurance recoverables on Loss and LAE payments.
16	Insurance Products and Related Practices – Policy Forms – Rate Filings – It is recommended that the Company file the CattleGuard rate pages CRGT 03 04 with the Department of Insurance at such time as they begin marketing the policy in Idaho again.
17	Underwriting – It is recommended that the Company respond to the insured's request, in accordance with the Company's own written guidelines, and acknowledge the request for cancellation by issuing the "Cancel for Insured Request" document, which does specify the cancellation date and the reasons for the cancellation. The Company should also retain copies of the certified mailing as indicated in the Underwriting Guide.
18	Underwriting - It is recommended that the Company, regardless of when an outside finance company is involved or when they receive notice from same, send a cancellation for non-payment of premium notice to the first-named insured allowing the mandatory ten (10) days prior to the effective date of cancellation. Proof of such mailing should be retained in the Company system in accordance with Idaho Code, Section 41-1842(6).
23	Evaluation of Controls and Information Systems - It is recommended that the IT Policies and Procedures, Project Plans and Strategic Documents as well as documentation (agendas or minutes) for strategic planning meetings with upper management should be maintained in a location known and available to appropriate individuals.

24 Evaluation of Controls and Information Systems - It is recommended that the change control process should be strengthened to include the possibility of a change being made to a program after it is tested and prior to its being moved to production.

25 Evaluation of Controls and Information Systems - It is recommended that Gary Jaques and Brett Helmandollar not be authorized to sign checks that they have approved. Additionally, it is recommended that someone other than the claims processors be required to add vendors. This will lessen the possibility of fraudulent activity in the payment of claims.

25 Evaluation of Controls and Information Systems - General Fire does not have a Documentation Standards Manual, checkoff list or minimum documentation for applications. It is recommended that documentation be included as a requirement of all future applications.

26 Evaluation of Controls and Information Systems – It is recommended that the billing be included in the new system being developed or purchased to improve the accuracy and timeliness of the application of payments and control of the premium billing.

26 Evaluation of Controls and Information Systems - It is recommended that the security of gNet be modified to be more effective and that the password database minimally be encrypted.

27 Evaluation of Controls and Information Systems - It was noted there were no written instructions to recover the system on the backup equipment in the building. Therefore, it is recommended that instructions should be written and made available to management in case of a disaster at Fiberpipe.

29 Subsequent Events - It is recommended that General Fire & Casualty Company correctly value the VPI investment at $197,777 in its 2005 annual statement, using the VPI 2004 statutory book value as a basis.

36 Unearned Premiums – It is recommended that the Company review its procedures and formulas for calculating the unearned premiums and to document these procedures and formulas.

ACKNOWLEDGEMENT

The undersigned acknowledges the assistance and cooperation of the Company's officers and employees in conducting the examination.

In addition to the undersigned, Claudia Schwartz, CIE (market conduct examiner) and John Reuter, CFE of the Idaho Department of Insurance; Randy Ross, ACAS, MAAA (actuary) of Taylor-Walker & Associates, Inc.; and Jenny Jeffers, CISA, AES (IT examiner) of RL Regulatory Consultants, Inc. participated in the examination.

Respectfully submitted,

David W. Emery

David W. Emery, CFE, FLMI
Examiner-in-Charge
State of Idaho, Department of Insurance

Kelvin Ko

Kelvin Ko, CFE
Senior Insurance Examiner
California Department of Insurance
Representing NAIC Western Zone

AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

David W. Emery, being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of the General Fire & Casualty Company for the period from January 1, 2001 through December 31, 2004, including subsequent events, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief, and that any conclusions and recommendations contained in the report are based on the facts disclosed in the examination.

David W. Emery

David W. Emery, CFE, FLMI
Examiner-in-Charge
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 17th day of February, 2006, at Boise, Idaho

Cheryl Kamowski

Notary Public

My commission Expires: 9/12/2009

CHERYL KAMOWSKI
NOTARY
PUBLIC
STATE OF IDAHO

General Fire & Casualty Company

March 16, 2006

Mr. William R. Michels, MBA, CFE
State of Idaho
Department of Insurance
PO Box 83720
Boise, ID 83720-0043

RE: Report of Examination - General Fire & Casualty Company (NAIC # 37931)
Examination Period: January 1, 2001 through December 31, 2004

Dear Mr. Michels:

We thank the State of Idaho Department of Insurance for the expedient handling of the Report of Examination of our company. Enclosed with this letter, we provide our response to the Report of Examination.

To conclude our discussions on the matter of making our responses to the exam report recommendations part of the public record, please accept this as our written request that our responses be part of the public record.

Enclosed, please find the signed Waiver of Hearing form which affirms our intent to so waive our right to hearing.

Sincerely,

Mike Smith

Mike Smith, CPA
Treasurer & CFO
General Fire & Casualty Company

RECEIVED
2006 MAR 20 PM 2:30
STATE OF IDAHO
DEPT OF INSURANCE

cc: Daniel W. Crandall
Kimberly J. Bailey

enclosures

2710 Sunrise Rim Road, Suite 100 Boise, Idaho 83705
Phone: 208-345-6658 Fax: 208-345-2871
Website: genfireins.com

EXHIBIT
B

General Fire & Casualty Company

March 16, 2006

Mr. William R. Michels, MBA, CFE
State of Idaho
Department of Insurance
PO Box 83720
Boise, ID 83720-0043

RE: Report of Examination - General Fire & Casualty Company (NAIC # 37931)
Examination Period: January 1, 2001 through December 31, 2004

Dear Mr. Michels:

We thank the State of Idaho Department of Insurance for the expedient handling of the Report of Examination of our company. In response to the Comments and Recommendations included in this Report of Examination, General Fire & Casualty Company wishes to submit the following:

Page 7, Conflict of Interest – The company has implemented a policy that will require all employees to annually complete a conflict of interest statement.

Page 9, Minutes of Meetings – The company agrees to comply with its bylaws as respects the scheduling of its annual shareholders meeting.

Page 15, Reinsurance - The company has a new software package for reinsurance accounting, and the establishment of the recommended aging report is scheduled for second quarter 2006.

Page 16, Insurance Products and Related Practices – Policy Forms – Rate Filings – The company agrees to follow the recommendation. The company will file the CattleGuard rate pages should the company resume the marketing of this program.

Page 17, Underwriting – The company agrees

Page 18, Underwriting – The company agrees.

Page 23, Evaluation of Controls and Information Systems – The company agrees.

Page 24, Evaluation of Controls and Information Systems – The company agrees.

Page 25, Evaluation of Controls and Information Systems – The company agrees and this has already been implemented.

2710 Sunrise Rim Road, Suite 100 Boise, Idaho 83705
Phone: 208-345-6658 Fax: 208-345-2871
Website: genfireins.com

Page 25, Evaluation of Controls and Information Systems – The company agrees and will implement for all future applications.

Page 26, Evaluation of Controls and Information Systems – The company is performing the cost benefit analysis process to determine whether it will bring this process "in – house".

Page 26, Evaluation of Controls and Information Systems – The company agrees and this has been completed.

Page 27, Evaluation of Controls and Information Systems – The company agrees and implementation is in process.

Page 29, Subsequent Events – This has been completed.

Page 36, Unearned Premiums – This has been completed.

We trust that you will find our response satisfactory. Please feel free to contact me at (208)947-7662, or by email: msmith@genfireins.com if you have any questions.

Sincerely,

Mike Smith

Mike Smith, CPA
Treasurer & CFO
General Fire & Casualty Company

cc: Daniel W. Crandall
Kimberly J. Bailey